EXECUTIVE SUMMARY

Our reviews and tests indicated that existing policies, procedures, and processes are generally adequate and effective, and we found no evidence of substantive management weaknesses or gross violations of policies or ethics. We did find some unauthorized purchases and a few policy violations that the Division of Acquisition Programs (DAP) had missed, mostly because DAP reviewers generally do not analyze the entire year of purchases, but only go back a few months. We also found that few cardholders use the Administrative Database (ADB) to log and track purchases, preferring instead to use the paper Record of Purchase Logs. Some of the Sensitive and Personal Custody Equipment Property purchases we reviewed were not properly entered into the Property Management System. This problem could be addressed by instituting a standardized receiving process for this type of equipment. Finally, we found that some of the purchases did not have appropriate supporting documentation. Since this was also a finding in the recent OIG Travel Card Review, the need for adequate documentation should be emphasized in future training.

We found that 6 cardholders were also the custodians of the property they had purchased. Although we found no instances of policy noncompliance or abuse, allowing purchasers to be their own property custodians could create the appearance of conflict of interest and increases the risk of abuse.

We are making recommendations aimed at strengthening some of the processes and controls for the Office of Administration's Purchase Card Program.

BACKGROUND

In June 2002, the General Accounting Office issued a report that identified a number of abusive or questionable transactions and management control weaknesses in the Army's Purchase Card Program. The following month, the Associate Director for Administration, Office of Administration (OA), requested that the Division of Quality Management conduct a proactive review of the OA Purchase Card Program.

DAP is responsible for ensuring that all cardholders and card approving officials (CAO) fully understand the card program’s policies and procedures. Each year, DAP audits all cardholders with delegated authority above $2,500 and reviews a random sample of cardholders with authority below $2,500.

Purchases made through the card program are reconciled each month by the cardholder and approved each month by a CAO. All Sensitive and Personal Custody Equipment Property must be decaled and entered into the Property Management System by a property custodian.

OBJECTIVES

We determined whether the OA Purchase Card Program has effective controls that are producing intended results. Specifically, we assessed (1) whether the program has effective policies, processes, and procedures that are being consistently followed and (2) whether there is appropriate separation of duties between cardholders and CAOs.

SCOPE AND METHODOLOGY

To determine whether the OA Purchase Card Program has effective controls that are producing intended results, we referred to NIH Policy Manual 6013-2 to develop a checklist we used as a guide to interview a targeted sampling of OA cardholders and to examine supporting documentation maintained by the interviewees.

We obtained a Purchase Card Account Statement listing about 3,600 purchase card transactions made by OA cardholders between May 2001 and July 2002. We identified all Sensitive and Personal Custody Equipment Property purchased by each cardholder, as well as purchases that appeared “unusual.” We defined unusual as those purchases that had large dollar values associated with them, seemed out of the ordinary for carrying out OA’s mission, or were made from sources that were not listed on the NIH Blanket Purchase Agreement list of mandatory sources of supplies and services.

We identified 309 purchases from the 3,600 to determine our sample of 185 purchases totaling $266,183.93. On the basis of the *Normal Distribution Curve*, we can state with a 95.44-percent level of confidence that our sample size was adequate and that the data derived from it was representative.

We interviewed 20 of the 23 OA cardholders and 9 of the 10 CAOs. We did not use the checklist for interviews with those that had been reviewed by DAP within the previous 12 months but did interview all about Personal Custody Equipment Property and unusual purchases. In addition, we reviewed all DAP reviews of the previous 12 months.

We performed our review in accordance with NIH Policy Manual 1750, *NIH Management Control Program* and used the standards established by the U.S. General Accounting Office as guidelines.

FINDINGS AND RECOMMENDATIONS

1. Does the program have effective policies, processes, and procedures, and are they consistently followed?

Our review indicated that existing policies, procedures, and processes are generally adequate and effective. We found no evidence of substantive management weaknesses or gross violations of policies or ethics. The OA Purchase Card Program, as a whole, is functioning effectively and producing desired results. However, there are areas for improvement in documentation, reconciliation, and training.

All cardholders we interviewed kept records of purchase logs that were completed in accordance with policy, and they reconciled their purchases in the ADB by the 13th of each month as required. All CAOs we interviewed used the ADB to reconcile cardholder purchases, and the reconciliation process was uniform, as was the process to address and correct any unauthorized purchases. Only 1 of 12 cardholders we administered the checklist to did not keep the card in a secure location.

We did find some unauthorized purchases and instances of noncompliance that the DAP reviews had not found, apparently because DAP reviewers generally do not analyze an entire year of purchases, but only focus on purchases made in the past few months prior to their review. For example, we found the following:

- Thirteen of the 185 purchases (7 percent) did not have accompanying receipts. These included $26,188.41 in monthly wireless charges from Nextel and Verizon.
- Three Personal Custody Equipment Property items (two laptops and one PC) were given improper codes in the

ADB Property Transaction Request, thereby not identifying them as needing to be entered into the Property Management System.

- Thirteen purchases appeared to fit the definition of unauthorized as defined in the policy.
- Ten purchases were made from sources other than those on the BPA list without documented justification.
- One cardholder purchased above the allowed limit, and two allowed others to use their cards.
- Eleven (18 percent) of the 62 Personal Custody Equipment Property purchases we analyzed were not entered into the Property Management System.

We also found that only two cardholders use the electronic reconciliation verification process via the F4 key in the ADB for purchase reconciliation verification. Most were either unfamiliar with the process or preferred to use the paper Record of Purchase Logs which does satisfy policy requirements. However, only three cardholders obtained CAO signatures on their Record of Purchase Logs. When asked about the signatures, most responded either with "I didn't know it was necessary," or "I didn't think it was necessary because I can look in the ADB and see that the CAO has reconciled my purchases."

2. Is there appropriate separation of duties between cardholders and CAOs?

There does not appear to be major conflicts of interest issues between cardholders and CAOs. However, we found six cardholders that act as their own property custodians. We found that these cardholders were generally exemplary in their compliance with policy and regulations. However, allowing cardholders to be their own property custodians gives the appearance of conflict of interest, and increases the risk of potential fraud and abuse.

RECOMMENDATIONS

We recommend that DAP enhance its formal training in the use of the ADB for purchase card transactions. Training could focus on policy and specific incidents identified during this and other reviews, and could include a web-based self-training program similar to that being offered by the NIH Computer Security Awareness Program.

We also recommend that when carrying out their reviews, DAP reviewers scan all purchases made during an entire review year for sampling, rather than focusing only on the last few months of purchases. This would increase the accuracy and effectiveness of the reviews. The Division could also use available “data mining” software to identify questionable purchases and vendors for review.

We further recommend that OA develop a standardized receiving process for all Sensitive and Personal Custody Equipment Property, to ensure that all such property is correctly entered into the Property Management System, and consider requiring vendors to decal all such property before shipping it to NIH.

We recommend that the Office of Logistics and Acquisition Operations consider not allowing any cardholder to act as his/her own property custodian.

SUPPORTING DOCUMENTATION

NIH Policy Manual 6013-2, entitled *Internal Procedures for the Purchase Card (I.M.P.A.C.) Program,* re-issued in February 2002, provides NIH employees with guidance in the use of the purchase card.

NIH Policy Manual 26101-25-2, entitled *Personal Property Management Guide*, establishes policies, procedures, and responsibilities governing the receipt, accountability, record keeping, management and survey of Government-owned personal property in order to ensure its control, care, use, and disposal.